

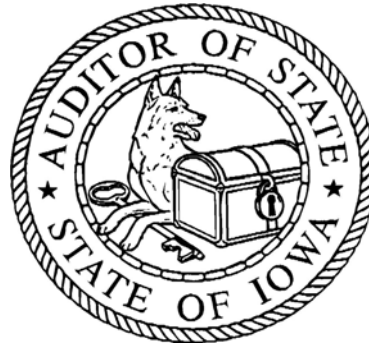
SAMPLE COMMUNITY SCHOOL DISTRICT

AUDIT REPORT SUPPLEMENT

JUNE 30, 2005

Office of
**AUDITOR
OF STATE**

State Capitol Building • Des Moines, Iowa



David A. Vaudt, CPA
Auditor of State



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
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Fellow CPAs:

This sample report is presented by the Office of Auditor of State as required by Chapter 11.6 of the Code of Iowa. In developing this report, we have made every effort to ensure the highest professional standards have been followed while attempting to provide meaningful and useful information to the citizens, our ultimate client.

For the year ended June 30, 2005, guidance on changes and updates is provided in this audit report supplement format. This supplement should be used in conjunction with the fiscal 2004 sample report previously issued by this office.

Audits of governmental subdivisions should be performed in accordance with U.S. generally accepted auditing standards, standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and, if applicable, the Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Beginning with audits for the fiscal year ended June 30, 2005, references to Chapter 11 of the Code of Iowa in the Independent Auditor's Report (1) on the financial statements, (2) on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and (3) on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 are no longer required. We have determined the Chapter 11 audit requirements are met through the application of generally accepted auditing standards and Government Auditing Standards. This change does NOT affect the audit procedures to be applied in auditing compliance with the requirements of Chapter 11, such as a review of internal control, testing of transactions for compliance, and for schools, an audit of the certified annual report and the certified enrollment. This is only a change in reporting.

This sample report has been prepared in conformity with U.S. generally accepted accounting principles and conforms to guidelines provided in Governmental Accounting and Financial Reporting Standards published by the Governmental Accounting Standards Board.

The format shows the basic financial statements, required and other supplementary information and the Schedule of Findings and Questioned Costs which are necessary to meet the requirements of this office. The detail presented in the financial statements and supplementary information is the minimum breakdown that will be acceptable subject, of course, to materiality considerations. If the auditor and the District feel more detail is necessary to provide a fair presentation, this of course will be welcome. A sample such as this cannot present all situations which you may encounter, so the auditor's professional judgment must be used in determining the additional information to be shown as well as the footnotes to be presented.

Entities with \$500,000 or more of federal expenditures are required to receive a Single Audit in accordance with OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Any questions concerning single audit requirements should be directed to the District's cognizant or oversight agency which is generally:

Office of Inspector General
United States Department of Education
8930 Ward Parkway, Suite 2401
Kansas City, MO 64114-3302
(816) 268-0502

Iowa Department of Education
School Finance Team
Grimes Building
400 East 14th Street
Des Moines, IA 50319-0146
(515) 281-5295

In accordance with OMB Circular A-133, one copy of the reporting package and Data Collection Form shall be submitted within 30 days after issuance of the audit report to a central clearinghouse. The Data Collection Form is available by calling 1-800-253-0696 (Form number SF-SAC) or on the Federal Audit Clearinghouse (FAC) website at <http://harvester.census.gov/sac>. Auditees are encouraged to use the on-line Internet submission option available on the FAC website. Submission of the on-line Internet form SF-SAC will require the user to submit a hard copy of the final form with the auditee and auditor signatures. Additional copies of the reporting package or notifications of audit should be submitted to the central clearinghouse or to grantor pass-through entities in accordance with the filing requirements of the Circular.

The Office of Management and Budget has designated the United States Department of Commerce, Bureau of the Census as the Single Audit Clearinghouse. Reporting packages should be submitted to:

Federal Audit Clearinghouse
1201 E. 10th Street
Jeffersonville, IN 47132

One copy of the audit report should be filed with the Iowa Department of Education regardless of whether the audit was performed in accordance with OMB Circular A-133.

The findings on compliance, items IV-A-04 through IV-J-04 (as noted in the June 30, 2004 sample report), detail those items which are to be included regardless of whether there are any instances of non-compliance or not. Any instances of non-compliance in other areas should also be reported. In accordance with Chapter 11.6(1)(a) of the Code of Iowa, the audit of the District is required to include an audit of certified enrollment and the District's Certified Annual Report. Any variances noted in the certified enrollment are required to be reported to the Department of Management, with a copy to the Iowa Department of Education.

We have also included a page for listing the staff actually performing the audit. Although we have found this page to be helpful, you are not required to use it.

Reports, including the management letter(s) if issued separately, are to be filed with this office within nine months following the end of the fiscal year subject to audit. However, reports should be filed with this office upon release to the District. The per diem audit billing (including fee, expenses and hours) should be submitted with the reports filed with our office.

Public access to reports issued by the Auditor of State and by CPA firms will be available through the internet. To allow this, you should submit an electronic copy of each FY2005 audit report, in PDF format, to our office in addition to the two paper copies submitted. The PDF files should be e-mailed to submitreports@auditor.state.ia.us. If you are unable to e-mail the file, you may mail a CD containing the PDF file to our office. You may direct any questions about submitting the electronic copy of the audit reports to the above e-mail address.

As required by Chapter 11 of the Code of Iowa, the news media are to be notified of the issuance of the audit report by the CPA firm, unless the firm has made other arrangements with the local government for the notification. We have developed a standard news release to be used for this purpose. The news release may be completed by the local government and a copy should be sent to this office with two copies of the audit report sent by the CPA firm. We will make a copy of the audit report and news release available to the news media in our office.

In accordance with Chapter 11 of the Code of Iowa, this office is to be notified immediately regarding any suspected embezzlement or theft.

Finally, I would like to express my appreciation to all CPA firms who are providing audit or other services to local governments. Together, we are able to provide a significant benefit to all taxpayers in the state.

DAVID A. VAUDT, CPA
Auditor of State

**Sample Community School District
Audit Report Supplement
June 30, 2005**

For the fiscal year ended June 30, 2005, guidance on changes and updates is provided in this 2005 Audit Report Supplement. This supplement should be used in conjunction with the fiscal 2004 sample audit report previously issued by this office.

Additional Notes Section

1. Number 2 – Amendments to the CAR: The Iowa Department of Education (DE) does not accept amendments to the CAR unless requested by the DE. All errors should be reviewed with the District and amended by the District through the upward and downward auditor's adjustments to the beginning balance on the subsequent period CAR.

Note: The CAR must be filed with the Iowa Department of Education by September 15, 2005.
2. Number 3 – The Iowa Department of Education is encouraging audit reports be filed electronically, with each report submitted on a separate CD. For more information, contact Jeannie.Ramirez@iowa.gov.
3. Number 4 – Confirmations from the Iowa Department of Education will be available electronically through the web. Also, all correspondence to auditors from the Iowa Department of Education will be done by e-mail. Please send e-mail addresses or updates to Janice.Evans@iowa.gov.
4. Number 8 – The income surtax receivable and deferred revenue should continue to be reported on the financial statements but excluded from the District's CAR. (Note: This reporting is consistent with property tax receivable and deferred revenue.)
5. Number 10 – The ISCAP 2005-06A interest rates will be available at the end of June 2005.
6. Insert attached Number 11 regarding the IJUMP Fleet Service Program.
7. Insert attached Number 12 regarding the Iowa School Employee Benefits Association.

News Release

8. Delete 2nd paragraph regarding implementation of new reporting standard.

Independent Auditor's Report (IAR)

9. Replace with the attached report.

Management's Discussion and Analysis (MD&A)

10. Delete 2nd paragraph
11. Figure A-4 – Include financial information for two years and the discussion that follows this table should include explanations for increases or decreases from FY2004 to FY2005. See June 30, 2004 Sample County report MD&A for an example of a two year presentation.

Notes to the Financial Statements

12. Note 2 Cash and Pooled Investments – replace with the attached note.
13. Note 5 Iowa School Cash Anticipation Program (ISCAP) – replace with attached note.
14. Note 12 Accounting Change and Restatements – delete note.

Required Supplementary Information (RSI)

15. Notes to RSI – Budgetary Reporting – replace with attached note.

**Sample Community School District
Audit Report Supplement
June 30, 2005**

Other Supplementary Information

16. Schedule 6, Schedule of Expenditures of Federal Awards – change the program names as follows:

<u>Program Name FY04</u>	<u>Program Name FY05</u>	<u>CFDA Number</u>
Food Donation (non-cash)	Food Distribution (non-cash)	10.550
Innovative Education Program	State Grants for Innovative	
Strategies (Title V Program)	Programs	84.298
Title IIA – Federal Teacher	Improving Teacher Quality	
Quality Program	State Grants	84.367

Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting

17. Replace with the attached report.

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance

18. Replace with the attached report.

**Sample Community School District
Audit Report Supplement
June 30, 2005**

Additional Notes (continued)

11. Districts may participate in the IJUMP Fleet Service Program, an IASB program designed to assist districts in managing rising fuel costs. Participating districts pay an annual risk management fee and then have guaranteed fuel prices for the fiscal year. However, if fuel prices increase during the fiscal year, IJUMP either bills the district for the shortfall at the end of the fiscal year or raises the risk management fee for the next fiscal year to cover the increased costs.

Because the district always pays any difference between the annual risk management fee and the actual fuel costs, both the Auditor of State and the Department of Education have ruled, through separate Declaratory Orders, the program is not “insurance,” and the risk management fee associated with the IJUMP Fleet Service program does not represent the cost of an insurance agreement pursuant to Chapters 296.7 and 298.4 of the Code of Iowa. Therefore, the risk management fee cannot be paid from the management levy. If the District is paying the IJUMP risk management fee from the management levy, a statutory comment of noncompliance should be included in the Schedule of Findings and Questioned Costs.

IASB has filed a petition for judicial review of these Orders with the Polk County District Court. While the matter is pending, these Orders are in force. The AOS Order has been posted on our website and when a court decision is issued, the information will also be posted on the Auditor of State web page at <http://auditor.iowa.gov/index.html> in the Audit Practice Aids – Technical Updates section.

Sample Comment

Use of Management Levy – The District used the management levy established by Chapter 298.4 of the Code of Iowa to pay the risk management fee for the IJUMP Fleet Service Program. Since the IJUMP program does not meet the criteria of an insurance agreement pursuant to Chapter 296.7 of the Code of Iowa, the use of the management levy to pay this fee is not authorized by Chapter 298.4.

Recommendation – The District should make a corrective transfer from the General Fund to the Management Fund to reimburse \$XXX paid for the risk management fee for the year ended June 30, 2005. A corrective transfer should also be made for any payments made subsequent to June 30, 2005.

Response –

Conclusion –

**Sample Community School District
Audit Report Supplement
June 30, 2005**

Additional Notes (continued)

12. In December 2004, the Iowa School Employee Benefits Association (ISEBA) issued assessments to current and past members in order to cover claims received when the program converted from self-insured medical coverage to fully-insured coverage effective July 1, 2004.

For Districts who continued their ISEBA membership, an additional assessment of 2% of the premium was built into the rates which are payable with the monthly premiums for the 2004-2005 and 2005-2006 plan years. The portion of the deficit recovery assessment that will be paid in the 2005-2006 plan year and any portion of the 2004-2005 assessment that remains unpaid at June 30, 2005, should be recorded as a liability in both the fund and government-wide financial statements. The following footnote titled **Risk Management (A)** should be used for Districts who have continued their membership in ISEBA.

Districts that ceased their membership with ISEBA at June 30, 2004 received an assessment which is due on July 1, 2005. If the District has not paid the assessment by June 30, 2005, a liability should be recorded in both the fund and government-wide financial statements. The following footnote titled **Risk Management (B)** should be used for Districts who are no longer members of ISEBA but have an unpaid assessment due to ISEBA at June 30, 2005.

If a District was assessed and paid their assessment by June 30, 2005, no footnote disclosure is necessary.

**Sample Community School District
Audit Report Supplement
June 30, 2005**

Additional Notes (continued)

Risk Management (A)

The District is a member in the Iowa School Employee Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed in July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members continuing membership in the Association had their deficit recovery assessment included in their annual premium for the 2004-2005 and 2005-2006 plan years. The deficit recovery is equal to 2% of the annual premium. The total amount of the deficit recoveries of current members is estimated to be \$2.2 million. The District's share of this assessment was \$____, of which \$____ was paid with the 2004-2005 premiums and \$____ is a liability as of June 30, 2005 and will be paid with the 2005-2006 premiums. Since the program is now fully insured, there will be no additional assessments due to claims exceeding premiums charged to members.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2005 were \$_____.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw.

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Sample Community School District
Audit Report Supplement
June 30, 2005**

Additional Notes (continued)

Risk Management (B)

The District was a member in the Iowa School Employee Benefits Association (ISEBA), an Iowa Code Chapter 28E organization until June 30, 2004. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed in July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members that terminated from ISEBA on June 30, 2004 received an assessment in December 2004 which is due July 1, 2005. The total assessment for terminated members is approximately \$3.9 million. The District's share of this assessment was \$_____ which is recorded as a liability as of June 30, 2005.

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.



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Independent Auditor's Report

To the Board of Education of
Sample Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Sample Community School District, Anywhere Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Sample Community School District at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 20, 2005 on our consideration of Sample Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 16 and 46 through 49 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Sample Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

September 20, 2005

DAVID A. VAUDT, CPA
Auditor of State

**Sample Community School District
Audit Report Supplement
June 30, 2005**

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2005, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	\$ 603,613
Direct Government Obligations Portfolio	<u>305,211</u>
Total	<u>\$ 908,824</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk. The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

(5) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2005 is as follows:

**Sample Community School District
Audit Report Supplement
June 30, 2005**

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2004-05A	6/30/04	6/30/05	\$ -	33,075	-	-
2004-05B	1/28/05	1/27/06	504,963	15,282	926,000	14,844
2005-06A	6/30/05	6/30/06	1,962,959	2,260	1,960,000	2,014
Total			\$ 2,467,922	50,617	2,886,000	16,858

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2005 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2004-05A	\$ -	1,555,000	1,555,000	-
2004-05B	-	420,000	-	420,000
Total	\$ -	1,975,000	1,555,000	420,000

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2004-05A	3.000%	2.463%
2004-05B	3.500	2.280
2005-06A		

**Sample Community School District
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June 30, 2005**

Sample Community School District

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$125,578.

During the year ended June 30, 2005, disbursements in the instruction and support services functions exceeded the amounts budgeted and the District exceeded its General Fund unspent authorized budget.



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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of
Sample Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Sample Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 20, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sample Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-05 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sample Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Sample Community School District and other parties to whom Sample Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Sample Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

September 20, 2005

DAVID A. VAUDT, CPA
Auditor of State



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Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Board of Education of
Sample Community School District:

Compliance

We have audited the compliance of Sample Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Sample Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Sample Community School District's management. Our responsibility is to express an opinion on Sample Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Sample Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Sample Community School District's compliance with those requirements.

In our opinion, Sample Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Sample Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Sample Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Sample Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item III-A-05 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe item III-A-05 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Sample Community School District and other parties to whom Sample Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

September 20, 2005

DAVID A. VAUDT, CPA
Auditor of State